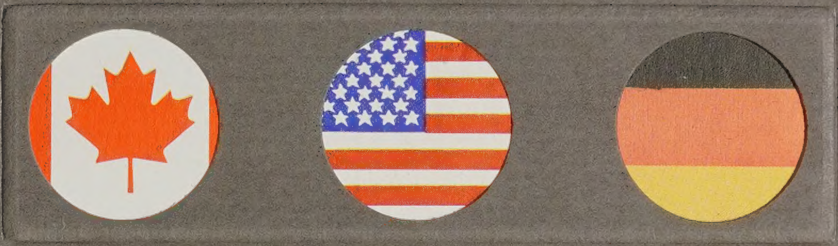
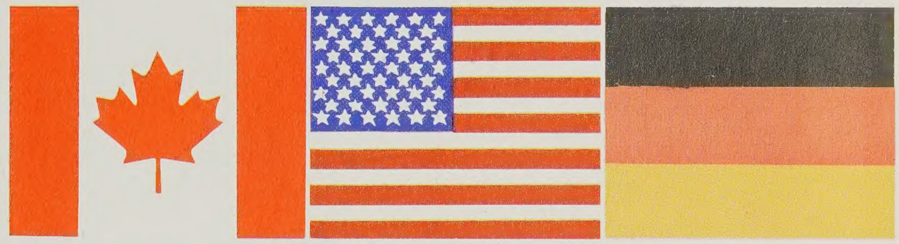


Harvey's Foods Limited
Annual Report
year ended March 31st
nineteen sixty nine



Harvey's Foods Limited

The flags of Canada, The United States of America and The Federal Republic of West Germany represent the three countries in which Harvey's Foods Limited carries on active operations through its wholly owned subsidiaries. As a Canadian Company interested in expanding to larger marketing areas, we are gratified at the acceptance of our ideas, our people and our concepts and look forward with enthusiasm to a long and rewarding relationship.

HEAD OFFICE:
238 Bloor Street West, Toronto 181, Ontario, Canada
Telex: 06-217623

BANKERS:
The Royal Bank of Canada

TRANSFER AGENT & REGISTRAR
The Canada Trust Company, Toronto & Montreal

AUDITORS
McDonald, Currie & Co., Chartered Accountants

LISTED
Toronto Stock Exchange

CONTENTS:

PRESIDENT'S REPORT

Your Company commenced its tenth year of operations on February 25th, 1969. Our development program for expansion and diversification will be continued to maintain Harvey's leadership in the fast food industry. This report contains a brief outline of our plans for the future, our franchisees' involvement in these plans and an introduction to Wille's. I shall, therefore, confine my remarks to a summary of the results for the year ended March 31st, 1969.

Major growth has been achieved through internal expansion and by acquisition. At the year end there were 62 Harvey's in operation which is an increase of 22 over the previous year. Similar results were achieved with our Swiss Chalet division which now operates 9 restaurants — an increase of 4. Plans are well under way for an additional 30 Harvey's and 2 Swiss Chalets. On January 1st, 1969, Harvey's Foods G.m.b.H., our wholly owned West German subsidiary, purchased a chain of 11 restaurants called Wille's which operates in 8 cities near Munich. From the date of acquisition to the present, we have been engaged in improving restaurant operations and introducing Harvey's system of accounting and inventory controls. Of necessity, the first full year of operating results will be consolidated in our next annual report. The total number of restaurants in all divisions as at March 31, 1970 should be 116.

In order to keep pace with our growth and to place ourselves in a position to meet our future expansion requirements, we have made certain changes in our management staff. During the past year, two new departments have been created: an Advertising Department which has had the effect of not only producing better coverage for our advertising dollar, but also providing our operators with personalized service; and an Engineering Department which now permits us to give complete supervision of new construction as well as semi-annual building maintenance inspections of all existing restaurant units. This change permits our supervisory personnel to assume more responsibility in restaurant operations through their weekly inspections.

All restaurants have been grouped into geographical units of approximately 12 and these units have been assigned to individual supervisors with the result that there is now total involvement between operator, supervisor and management. Management and supervisors meet monthly with representative operators from each unit area to discuss and improve methods of providing better service to our many customers. In addition, our summer and winter conventions have maintained a high level of enthusiasm and co-operation which, we feel, is second to none in the industry. Similar realignment of duties has been effected in our Legal, Financial, Real Estate, Purchasing and Franchising Departments. A system of objectives has been adopted whereby management amongst themselves are now able to compare performance. This approach is essential not only to maintain our present status, but to be prepared for our future expansion. You may be assured that management will constantly review and revise its objectives with a corresponding re-assessment of duties to keep pace with our expansion and its relationship to our rapidly changing society.

Our expansion in Canada has now carried us as far west as Winnipeg, Manitoba and east to Moncton, New Brunswick. In 1968, we successfully located in three communities having a population of less than fifty thousand which confirmed our feasibility studies of these areas. As a consequence we have currently under construction locations in six similar communities. The overall result is that in addition to our traditionally larger centres, there are many new marketing areas open to us, not only in the Provinces of Ontario and Quebec, but also in Western Canada and the Atlantic Provinces. In order to keep pace with the projected increase in the number of fast food outlets, we feel that there will be an increasing need to maintain the high quality of food and service typical in all our divisions.

On January 17th, 1969, the Common Stock of your company was subdivided on a three for one basis with the desired result that the number of shareholders increased from 1225 to 2253 which includes 301 brokers and trust companies. This interest in your company is most gratifying. The acceptance of our product is reflected in our restaurant sales, which increased 22.5% over last year. The success of our operators is reflected in our own financial results. Gross income increased 28% to \$6,204,193 from \$4,846,909 in 1968 and net earnings increased 51% to \$1,063,585 from \$703,367 in 1968.

Throughout the years, our many customers have demonstrated a devoted loyalty which is reflected in the results of this report. In this day and age where business is becoming more impersonal, it is a pleasure to acknowledge the efforts of many people who enjoy contributing to achieve a common result. Their efforts are appreciated and I trust that they will be gratified to know that they have made this report possible.

Submitted on behalf of the Board
of Directors, Toronto, July 22nd, 1969.

G. R. Sykora Jr.

PRESIDENT

GEORGE B. SUKORNYK, Q.C.
PRESIDENT

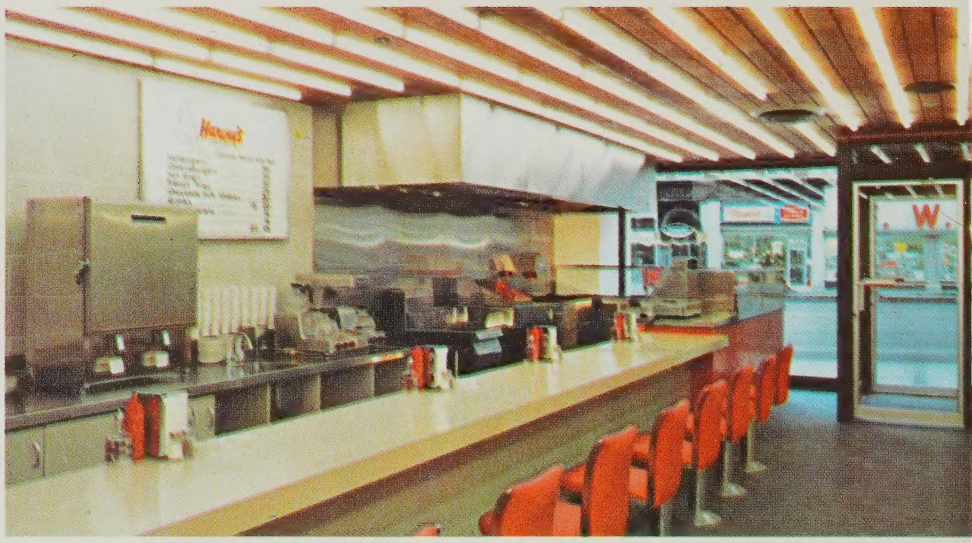
***Richard Charles Wilfred Mauran** Appointed February 25, 1959	Chairman – Harvey's Foods Limited Chairman – Grissol Foods Limited President – Industrial Growth Management Limited Director – Reliable Life Insurance Company
***George Bernard Sukornyk, Q.C.** Appointed February 25, 1959	President – Harvey's Foods Limited Treasurer & Chief Financial Officer – Industrial Growth Management Limited Secretary – Grissol Foods Limited
Donald Colin Webster Appointed March 20, 1964	Vice-President – Harvey's Foods Limited President – Helix Investments Limited President – T'Ang Management Limited Vice-President – General Impact Extrusion (Mfg.) Ltd.
Yves Charles Hudon Appointed March 20, 1964	President – Grissol Foods Limited
Marc André Boisclair Appointed September 29, 1965	President – Location Commerciale Inc.
David Stewart Owen Appointed February 10, 1966	Real Estate Consultant
Robert George McCulloch Appointed May 23, 1967	Executive Vice-President – Midland Osler Securities Ltd.
***William Austin Stewart** Appointed April 4, 1968	Vice-President – Midland Osler Securities Ltd.
Martin Bernard Syron Appointed October 7, 1968	Barrister & Solicitor – Harvey's Foods Limited

EXECUTIVE OFFICERS

Richard Charles Wilfred Mauran	Chairman of the Board
George Bernard Sukornyk, Q.C.	President
Donald Colin Webster	Vice-President
Edward John Kozak	Secretary
William George Schwalm	Treasurer & Comptroller
Jutta Gisela Steinmeister	Assistant Treasurer Director – Harvey's Foods G.m.b.H.

*Members of the Executive Committee


Swiss Chalet
HARVEY'S

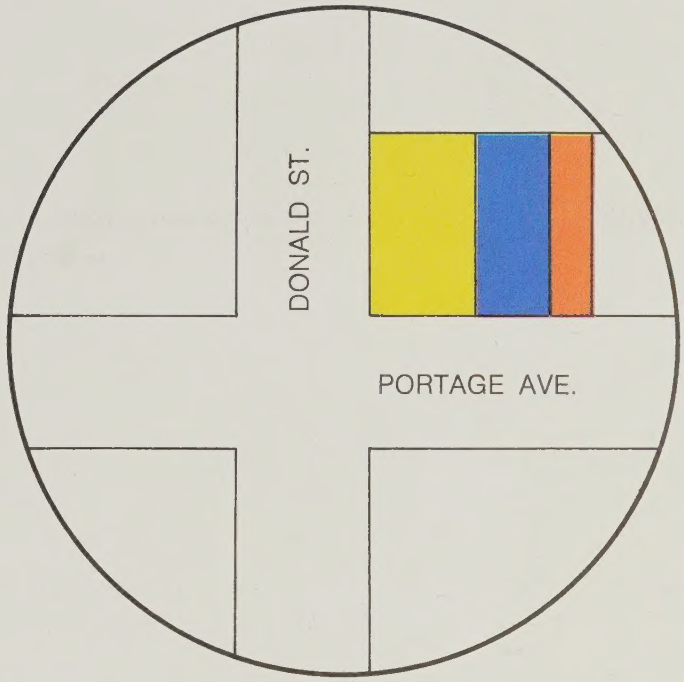


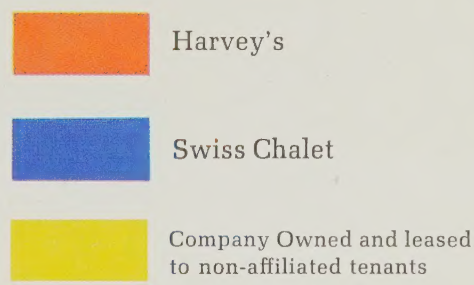

Swiss Chalet
Swiss Chalet Bar-B-Q

SOME NEW LOCATIONS

WINNIPEG, MANITOBA

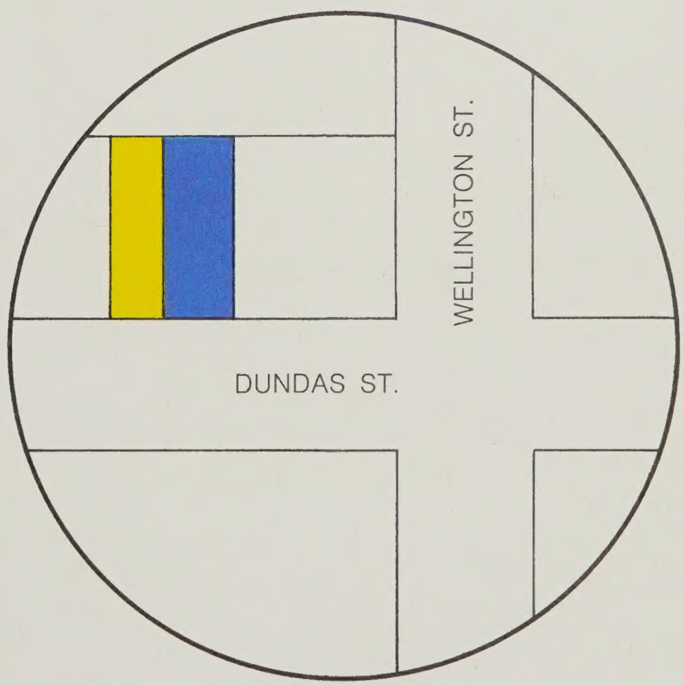
The purchase of the north-east corner of Portage Avenue and Donald Street permitted the Company to establish its Swiss Chalet and Harvey's Divisions in one of the most valuable downtown corners in the City of Winnipeg. Renovations to the second, third and fourth floors are currently being carried on to accommodate additional dining and banquet rooms as well as future offices for the Company's western division. Space in two adjacent buildings has been rented to non-affiliated tenants.



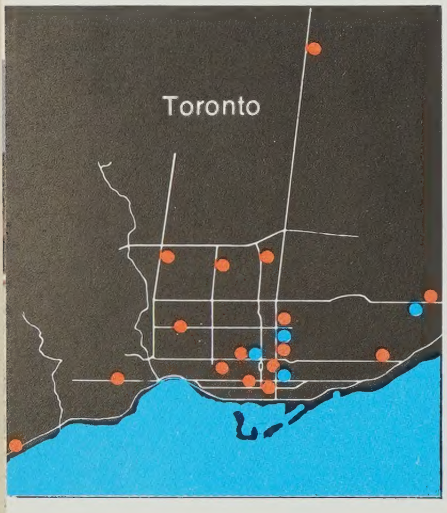


LONDON, ONTARIO

Substantial downtown frontage was purchased on Dundas Street in the City of London. The building was completely renovated to accommodate a Swiss Chalet Bar-B-Q restaurant. Additional adjacent frontage (for a future Harvey's sit-down if required) and most of the second floor offices have been rented to non-affiliated tenants.



TORONTO



HAMILTON

OTTAWA

MONTREAL

LOCATIONS

Harvey's

ONTARIO

Belleville
**North Front St.

Brantford
**578 Colborne St. E.

Chatham
25 St. Clair St.

Galt
**77 Water St. N.

Guelph
12 Gordon St.

Hamilton
1655 Main St. W.
1014 Barton St. E.

Kingston
890 Princess St.

London
158 Wharncliffe Rd. S.
590 Dundas St.

Niagara Falls
2839 Lundy's Lane

Mississauga
**2204 Dundas St. East

Ottawa
797 Richmond Rd.
1339 Bank St.
660 Montreal Rd.
336 Rideau St.
1296 Baseline Rd.
**Bell's Corners, Highway 15

Port Credit
650 Lakeshore Rd. E.

Richvale
9471 Yonge St.

St. Catharines
347 Ontario St.

Stoney Creek
724 Queenston Rd.

Sarnia
*323 North Christina St.

Sudbury
*1324 Lasalle Blvd.

Toronto
805 the Queensway
3128 Eglinton Ave. E.
1791 Avenue Rd.
238 Bloor St. W.
3520 Danforth Ave.
3120 Dufferin St.
2029 Jane St.
778 Yonge St.
23 Adelaide St. W.
228 Queen St. W.
1500 St. Clair Ave. W.
1440 Yonge St.
278 Jarvis St.
356 College St.

Waterloo
410 King St. N.

Windsor
2380 Wyandotte St. W.
2550 Tecumseh Rd.

QUEBEC

Gatineau
318 Maloney Blvd.

Hull
541 St. Joseph Blvd.
365 Taché Blvd.

Montreal
470 Curé Labelle
9000 Airlie Blvd.
441 Lafleur
2330 Lapiniere
388 Chambly Rd.
7100 Sherbrooke St. E.
8725 Pie IX Blvd.
1853 St. Catherine St. W.
6775 Cote des Neiges Blvd.
7505 Lacordaire
1377 Henri Bourassa E.
900 Mont Royal Ave. E.
3585 Masson St.
3530 St. Catherine St. E.
6966 St. Jacques W.
9513 Lajeunesse
7505 St. Hubert
255 Cremazie W.
*650 Atwater Ave.
23 Notre Dame E.
11655 Gouin Blvd.
1305 Laurentide Blvd.

Quebec City
3090 St. Anne Blvd.
**Hamel Blvd. & Pere Le Lievre
**2702 First Ave.
**1157 St. Jean St.

Rosemere
170 Labelle Blvd.

St. Eustache
101 Sauvé Blvd.

St. Hélène de Bagot
Trans Canada Highway #20

Three Rivers
5725 Blvd. Royal

NEW BRUNSWICK

Moncton
835 Mountain Rd.

MANITOBA

Winnipeg
297 Portage Ave.
**Main St. & River Ave.
**Portage Ave. & Garfield
**Henderson ~~Ave.~~ Hwy & Poplar Ave.

NEW YORK STATE

Buffalo
639 Main St.

Swiss Chalet Bar-B-Q

ONTARIO

Toronto
234 Bloor St. W.
1415 Yonge St.
362 Yonge St.
2990 Eglinton Ave. E.

Hamilton
735 Queenston Rd.

London
260 Dundas St.

Mississauga
**2220 Dundas St. East

QUEBEC

Quebec City
**1157 St. Jean St.

MANITOBA

Winnipeg
299 Portage Ave.

NEW YORK STATE

Buffalo
643 Main St.

Tonawanda
1551 Niagara Falls Blvd.

*Under Construction
**Building Permit Applied for

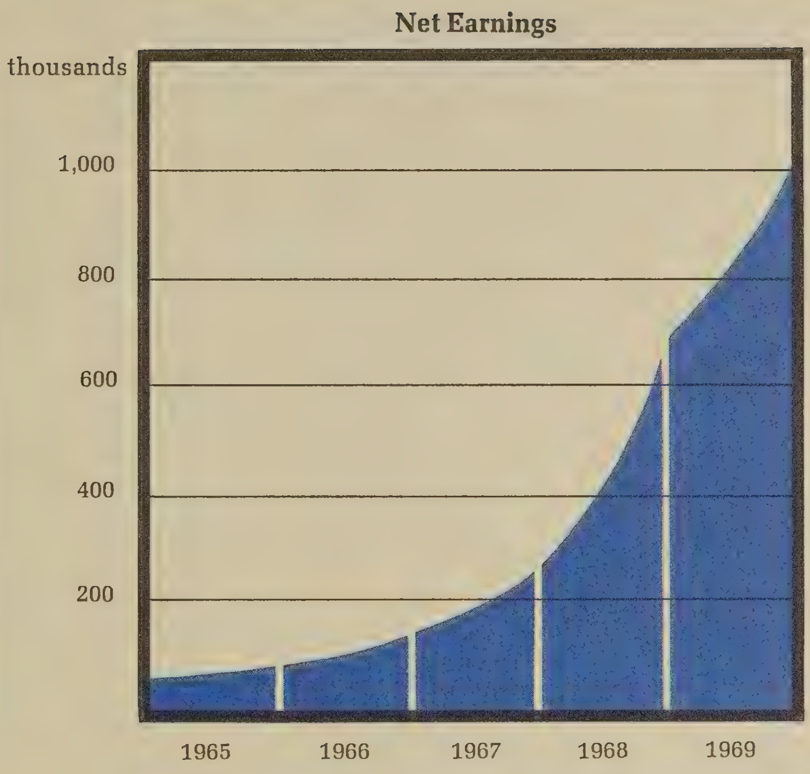
THE COMPANY'S GROWTH

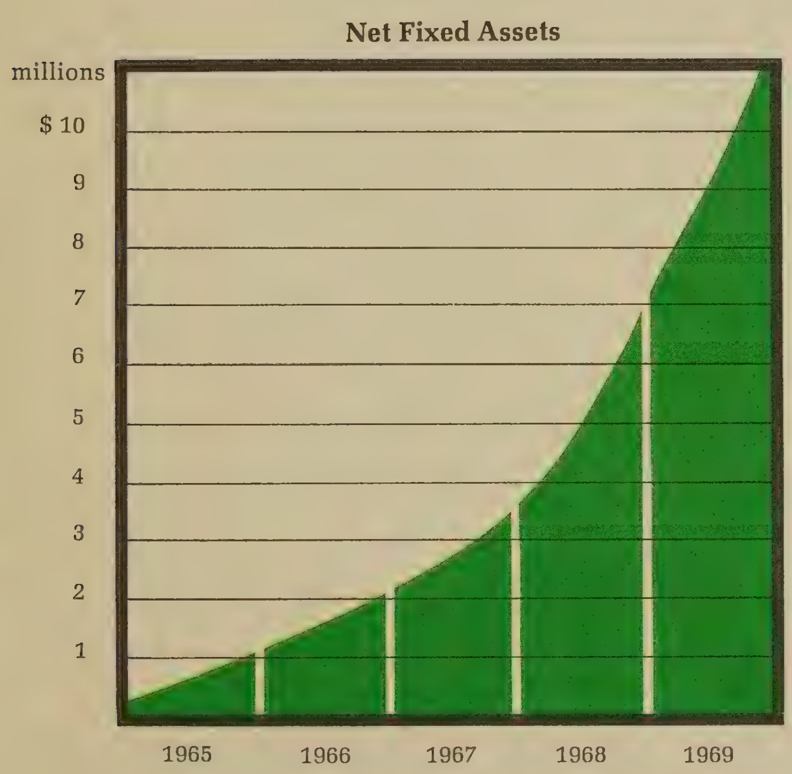
	1965	1966	1967	1968	1969	CHANGE 1968 to 1969
Number of Locations	14	22	32	45	71	+ 58%
Net Fixed Assets	$1,225,306	2,153,176	3,407,393	6,983,371	11,058,561	+ 44%
Gross Income	$ 388,765	660,435	1,022,615	4,846,909	6,204,193	+ 28%
Net Income before Income Taxes	$ 182,278	347,699	545,472	1,440,544	2,271,885	+ 58%
Net Reported Earnings	$ 95,837	176,292	272,215	703,367	1,063,585	+ 51%
Dividends on Preference Shares	$ 2,352	2,686	2,426	15,978	27,500	+ 72%
Net Earnings available to Common Shareholders	$ 93,485	173,606	269,789	687,389	1,036,085	+ 51%
Common Shares Outstanding*	1,200,000	1,359,675	1,884,900	2,592,237	3,056,112	+ 18%
Earnings Per Common Share **	$ .11	.13	.19	.31	.35	+ 13%
Common Shareholders' Equity	$ 368,452	792,774	1,762,713	3,901,583	8,019,918	+106%
Return on Average Equity — Book	48%	30%	21%	24%	17%	— 29%
Book Value Per Common Share	$ .31	.58	.94	1.51	2.62	+ 74%

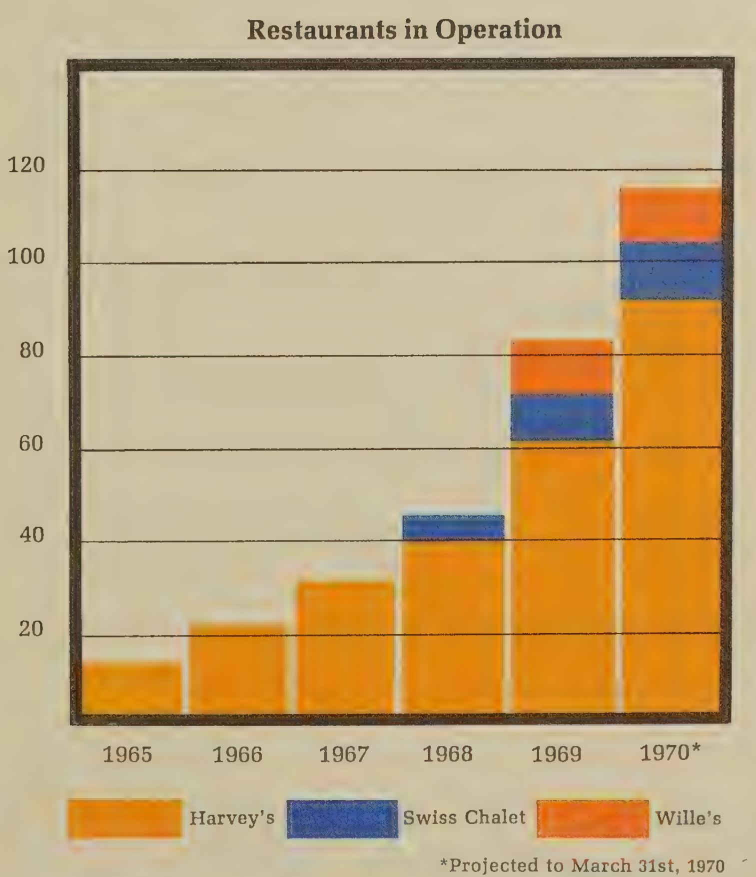
*1968 and prior years restated to reflect 3 for 1 subdivision, January 18, 1969.

**1968 and prior years restated based on the weighted average of the number of shares outstanding during the year.

...FINANCIALLY







Consolidated Balance Sheet

as at March 31, 1969

ASSETS

	1969 $	1968 $
CURRENT ASSETS		
Cash and short-term investment	587,450	186,449
Accounts receivable	485,854	363,465
Chattel mortgages and notes receivable — current portion	381,874	231,941
Prepaid expenses	79,424	48,756
	1,534,602	830,611
INVESTMENT IN AND ADVANCES TO SUBSIDIARY COMPANY NOT CONSOLIDATED	209,079	—
CHATTEL MORTGAGES AND NOTES RECEIVABLE (note 2)	3,419,482	1,964,868
Less: Provision (note 2)	676,350	584,574
	2,743,132	1,380,294
Less: Current portion	381,874	231,941
	2,361,258	1,148,353
FIXED ASSETS		
Land — at cost	4,332,954	2,391,867
Buildings, parking lots and equipment — at cost less accumulated depreciation (note 3)	6,288,557	4,415,396
Leasehold improvements — at cost less amortization	437,050	176,108
	11,058,561	6,983,371
OTHER ASSETS		
Financing expenses — at cost less amortization	225,837	169,336
Trade mark — at cost less amount written off	—	60,000
Excess of cost of shares over book value of assets of subsidiary companies acquired	1,058,114	165,833
	1,283,951	395,169
	16,447,451	9,357,504

SIGNED ON BEHALF OF THE BOARD

Director

Director

LIABILITIES

	1969 $	1968 $
CURRENT LIABILITIES		
Bank loan	74,500	61,000
Accounts payable and accrued charges	511,090	265,785
Income taxes payable	304,543	165,865
Long-term liabilities — current portion	689,324	726,131
	1,579,457	1,218,781
LONG-TERM LIABILITIES		
Mortgages payable (note 4)	4,164,048	2,679,809
Due on equipment (note 5)	329,261	141,776
7½% sinking fund debentures, series A (note 6)	67,500	77,500
7½% serial debentures, series C (note 7)	480,000	720,000
8½% convertible debentures, series D (note 8)	255,000	—
	5,295,809	3,619,085
Less: Current portion	689,324	726,131
	4,606,485	2,892,954
Buildings under construction (note 9)	—	13,595
	4,606,485	2,906,549
DEFERRED INCOME TAXES (note 10)	1,731,191	820,191

SHAREHOLDERS' EQUITY

	1969 $	1968 $
CAPITAL STOCK (note 11)		
Authorized —		
50,000 first preference shares, with a par value of $50 each, issuable in series		
10,400 non-voting convertible second preference shares with a par value of $1 each		
6,000,000 common shares without par value		
Issued and fully paid —		
10,000 5½% cumulative redeemable first preference shares, series A	500,000	500,000
10,400 second preference shares	10,400	10,400
3,056,112 common shares (1968 — 2,592,237 common shares)	5,746,534	2,701,784
	6,256,934	3,212,184
CONTRIBUTED SURPLUS (1969 — $97,500, value attributed to share purchase warrants issued during the year)	99,000	1,500
RETAINED EARNINGS	2,174,384	1,198,299
	8,530,318	4,411,983
	16,447,451	9,357,504

Notes to Consolidated Financial Statements for the year ended March 31, 1969

1. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of all subsidiary companies except the newly formed and wholly-owned German subsidiary (Harvey's Foods G.m.b.H.). All of the shares of Swiss Chalet Bar-B-Q, Inc. and Richco Properties, Inc. were acquired on April 4, 1968 and the consolidated statement of earnings for the year ended March 31, 1969 includes the operating results of these subsidiaries from that date.

Harvey's Foods G.m.b.H. was incorporated during the year and acquired the net assets of Wille's, an operating restaurant chain, and commenced operations in January 1969. Its accounts have not been included in the consolidated financial statements because it has not as yet completed its first fiscal year of operations. The results to date have been nominal and no reflection thereof has been made in the accounts of the parent company.

The accounts of the two U.S. subsidiary companies have been converted at the following rates of exchange:

fixed assets and related depreciation at rates in effect at the date of acquisition; long-term investments at rates in effect at the date of acquisition; long-term liabilities at rates in effect when the liabilities were incurred; current assets and current liabilities at rates as at March 31, 1969; and revenues and expenses (other than depreciation) at average rates in effect during the year.

2. CHATTEL MORTGAGES AND NOTES RECEIVABLE

(a) The chattel mortgages and notes receivable represent the balances due from franchise operators in respect of the purchase of franchise rights. These mortgages and notes are repayable over a 5 to 15 year period by blended monthly repayments of principal and interest at 7% and 8% per annum for the first 5 years from the effective date and 7% to 10% per annum for the balance of the term.

(b) Up to March 31, 1968 the company had provided 30% of the amount outstanding to cover possible losses on collection and termination of franchise agreements. For the current year the provision was reduced to 20% which resulted in a credit of $194,858 arising from the application of the reduced rate to the notes outstanding at the beginning of the year. Had the 30% rate been used throughout as in prior years net earnings for the year would have been approximately $159,000 less.

3. FIXED ASSETS

(a) Buildings, equipment and accumulated depreciation thereon is made up of the following:

	1969			1968
	Cost $	Accumulated depreciation $	Net $	Net $
Buildings	4,567,334	384,529	4,182,805	2,842,237
Parking lots	89,355	14,243	75,112	73,682
Equipment	2,562,769	532,129	2,030,640	1,499,477
	7,219,458	930,901	6,288,557	4,415,396

(b) The following rates of depreciation are used by the company:

Buildings	5% reducing balance
Parking lots	4% reducing balance
Equipment	10%, 20% and 30% reducing balance
Leasehold improvements	Straight line over term of the lease.

4. MORTGAGES PAYABLE

	Due within five years $	Due between five and ten years $	Due after ten years $	Total $
First mortgages — 6% to 9½%	1,174,015	1,558,445	889,046	3,621,506
Second mortgages — 5½% to 9½%	242,207	219,004	61,776	522,987
Third mortgage — 6½%	4,124	15,431	—	19,555
	1,420,346	1,792,880	950,822	4,164,048

5. DUE ON EQUIPMENT

This amount is due to suppliers of equipment whose accounts are, by arrangement, payable monthly over varying periods of up to three years. Interest is charged on certain accounts at rates varying from 0 to 8% per annum which is added to the principal amount. Some of these accounts are secured by conditional sales contracts.

6. 7½% SINKING FUND DEBENTURES, SERIES A

These debentures mature on April 15, 1974, and are redeemable at the principal amount thereof plus a premium of 5% on or before April 15, 1969 and thereafter the said premium reduces by 1% for each year commenced or elapsed after April 15, 1969.

By the terms of the Debenture Trust Deed the company is required to establish a sinking fund sufficient to retire $10,000 principal annually on April 15, 1969 to 1973, both inclusive. $12,500 principal amount of the debentures have been purchased and applied towards the April 15, 1969 and 1970 payments.

By the terms of a supplement to the Debenture Trust Deed dated June 16, 1967, the interest rate was increasd to 7½% from 7%.

7. 7½% SERIAL DEBENTURES, SERIES C

These debentures mature serially at the rate of $20,000 on the last day of each month and are redeemable at par at the company's option on the last day of any month without prior notice. The original principal amount was $900,000 and redemptions have been made monthly since July 31, 1967.

8. 8½% CONVERTIBLE DEBENTURES, SERIES D

On June 1, 1968, the company issued 8½% convertible debentures, series D in the principal amount of $255,000 to mature on May 31, 1978 and redeemable at par prior to that date. For the purposes of conversion 45,000 common shares have been reserved.

ods Limited
y Companies

Consolidated Statement of Earnings (note 1)

For the year ended March 31, 1969

	1969 $	1968 $
GROSS INCOME	6,204,193	4,846,909
EARNINGS — before charging the following	3,137,006	2,358,461
Provision for losses on collection and termination of franchise agreements (note 2(b))	91,776	371,011
Depreciation	392,948	283,784
Amortization of financing expenses	36,228	27,419
Interest	344,169	235,703
	865,121	917,917
NET EARNINGS BEFORE INCOME TAXES	2,271,885	1,440,544
PROVISION FOR INCOME TAXES		
Current	297,300	228,934
Deferred	911,000	508,243
	1,208,300	737,177
NET EARNINGS FOR THE YEAR (note 2(b))	1,063,585	703,367
Earnings per common share (based on the weighted average of the number of shares outstanding during the year) (note 11(b))	.35¢	.31¢

Consolidated Statement of Retained Earnings

For the year Ended March 31, 1969

	1969 $	1968 $
BALANCE — Beginning of year	1,198,299	570,910
Net earnings for the year	1,063,585	703,367
	2,261,884	1,274,277
Amount written off — Swiss Chalet trade mark	60,000	60,000
Dividends paid on preference shares	27,500	15,978
	87,500	75,978
BALANCE — End of year	2,174,384	1,198,299

Consolidated Statement of Source and Use of Funds

For the year Ended March 31, 1969

	1969 $	1968 $
SOURCE OF FUNDS		
Net earnings for the year	1,063,585	703,367
Add: Charges not requiring an outlay of funds —		
Depreciation and amortization	429,176	311,203
Deferred income taxes	911,000	508,243
Provision for losses on collection and termination of franchise agreements — net	91,776	371,011
	2,495,537	1,893,824
Proceeds from issue of capital stock and share purchase warrants	3,142,250	2,021,881
Increase in long-term liabilities — net	1,699,936	948,604
Deferred income taxes — subsidiary company at date of acquisition	—	11,448
	7,337,723	4,875,757
USE OF FUNDS		
Additions to fixed assets — net	4,468,138	3,859,762
Increase in share and debt issue expenses	92,729	74,561
Redemption of preference shares	—	41,700
Dividends	27,500	15,978
Increase in mortgages and notes receivable	1,304,681	1,085,812
Trade mark	—	120,000
Excess of cost of shares over book value of assets acquired of subsidiary companies	892,281	165,833
Investment in and advances to unconsolidated subsidiary	209,079	—
	6,994,408	5,363,646
INCREASE (DECREASE) IN WORKING CAPITAL	343,315	(487,889)
WORKING CAPITAL (DEFICIENCY) BEGINNING OF YEAR	(388,170)	99,719
Increase (decrease) in working capital	343,315	(487,889)
WORKING CAPITAL (DEFICIENCY) END OF YEAR	(44,855)	(388,170)

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Harvey's Foods Limited and subsidiary companies as at March 31, 1969 and the consolidated statements of earnings, retained earnings and source and use of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at March 31, 1969 and the results of their operations and the source and use of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except for the change in the basis of calculation of the provision for losses on collection and termination of franchise agreements as set out in Note 2(b) with which we concur.

McDONALD, CURRIE & CO.,
Chartered Accountants

June 11, 1969

9. BUILDINGS UNDER CONSTRUCTION

At March 31, 1969, the company is committed under construction contracts to the extent of approximately $112,000.

10. DEFERRED INCOME TAXES

Deferred income taxes arise from (a) claiming depreciation and amortization for income tax purposes in excess of that recorded in the accounts of the company, and (b) taking into income the total profit on the sale of franchises is the year in which sold, whereas for income tax purposes these profits are computed as cash is received in settlement. The effect of the above is to reduce the income taxes payable in respect of the year by $911,000 which together with similar amounts arising in earlier years amount in total to $1,731,191. These taxes are applicable to future years when income for tax purposes is more than that recorded in the accounts.

11. CAPITAL STOCK

The company has obtained supplementary letters patent dated January 18, 1969 giving effect to a subdivision of the authorized common shares from 2,000,000 to 6,000,000 shares. Common shares, share purchase warrants and conversion rights have been restated on a 3 to 1 basis to give effect to the subdivision of shares as authorized by the supplementary letters patent.

(a) During the year the following shares were issued:

	Number of common shares	$
Acquisition of shares in Richco Properties, Inc. and Swiss Chalet Bar B-Q, Inc.	156,000	728,000
Cash received pursuant to underwriting agreement dated July 29, 1968	300,000	2,310,000
Cash received under an employee's stock option plan	1,500	2,500
Cash received on the exercise of share purchase warrants outstanding	6,375	4,250
	463,875	3,044,750

(b) Common shares are reserved for issue as follows:

	Number of shares reserved 1969	1968
8½% Convertible Debentures, series D, convertible up to May 31, 1978 on the basis of 3 common shares for each $17 principal amount of debentures outstanding	45,000	—
Share purchase warrants – of the 300,000 originally issued, the holders thereof are entitled to purchase common shares at $.67 per share on or before April 15, 1969 or thereafter at $1.33 per share up to April 15, 1974	126,420	132,795
Share purchase warrants, Series 2 (1967) – of 390,000 issued, the holders thereof are entitled to purchase common shares at $2.50 per share on or before May 15, 1977	390,000	390,000
Share purchase warrants, Series 3 (1968) – of 45,000 issued as part of the consideration for the purchase of the shares of Swiss Chalet Bar-B-Q, Inc. and Richco Properties, Inc. the holders thereof are entitled to purchase common shares at $2.50 per share on or before May 15, 1977	45,000	45,000
Employee's stock option – of 15,000 common shares reserved, the employee is entitled to purchase a maximum of 1,500 shares per year at $5 for 3 shares. This stock option expires May 2, 1976	12,000	13,500
The 10,400 non-voting covertible second preference shares entitle the holder to convert 1 second preference share into 75 common shares when the consolidated net earnings of the company before income taxes and additional compensation in any year exceed the datum level as described in note 11(d) of these financial statements	780,000	780,000
	1,398,420	1,361,295

(c) The 5½% cumulative redeemable first preference shares, series A are redeemable at $52.50 per share if such redemption takes place on or before January 1, 1972 and thereafter at a price declining 50¢ annually to par if redemption takes place after January 1, 1976. On or before the last days of April and October in each year commencing with the year 1972, the company shall set aside out of the net profits after income taxes and all other charges of the preceding fiscal year as a sinking fund for the redemption of series A first preference shares the sum of $50,000, or if such profits be less than $100,000, then an amount equal to half of such profits.

(d) The 10,400 non-voting convertible second preference shares have a par value of $1. Dividends thereon have been waived. When the consolidated net earnings of the company before income taxes and additional compensation in any year exceed certain datum levels, 1 second preference share is convertible into 75 common shares for each $100 of excess earnings. Such conversion may only take place between June 30 and December 31, following the completion of the fiscal year in which the conversion privilege was earned, provided that no more than 2,000 second preference shares may be converted in any one period. Any exercisable conversion rights are carried forward into subsequent years. The conversion rights are adjusted in the case of stock splits, stock dividends or, under certain circumstances, the issue price of common shares. The datum level has been exceeded in the years ended March 31, 1968 and 1969 by approximately $587,000 and $1,266,000 respectively and as a consequence all 10,400 second preference shares have earned convertability at the rate of 2,000 shares per year as set out above.

12. LEASES

The company holds leases of 7 to 30 years' duration on twenty properties at a net annual rental of approximately $187,500. The company has the option to purchase thirteen of these properties.

13. STATUTORY INFORMATION

Remuneration of nine directors and three senior officers not included as directors amounted to $195,400 (1968 – $142,838).

YOUR COMPANY

The future of your company has been planned with the considered confidence that has been our policy since inception. To make proper projections on restaurant openings in the coming and subsequent years, we are governed by geographical boundaries, the establishment of lines of supply and the availability and training of competent people. Throughout the past years, we have continued our marketing studies which clearly indicated those areas which could not only accommodate our type of business, but also financially support it. Applications for franchises far exceed the availability of locations. In many instances these profit conscious prospective franchisees are prepared to move their families to other cities in order to operate their own business. It is after surveying these demands that we are in a position to appraise not only our growth over the next year but also our long term expansion programme.

HARVEY'S DIVISION

The Harvey's Division will continue its expansion in Western Canada where marketing studies have been completed in all major areas. Several properties have been purchased in the Winnipeg area. Similar development is well under way in the Atlantic Provinces where our initial experience (in Moncton) has been most rewarding. We shall continue our projected programme in smaller centres as well as purchasing property in Northern Ontario and Quebec City. Our entire programme will involve the opening of about thirty additional Harvey's in the forthcoming year.

An apple turnover dessert was introduced after the year end in our head office Harvey's restaurant. The product has been sufficiently accepted to permit further testing in drive-in locations. Should consumer acceptance continue, all locations will be selling dessert by August 1969.

SWISS CHALET DIVISION

The Swiss Chalet Bar-B-Q Division will be increased by the addition of two new locations. Dining lounge licences have been applied for our London, Ontario and Buffalo, New York locations. The Winnipeg Swiss Chalet has been approved for a licence. This service will be considered for our Toronto locations when we have determined its effect on food sales. New desserts are also being tested to enhance our menu.

WILLE'S

An introduction to Wille's may be found in this report which gives much of the back-ground of this operation. At present, we have one new location under construction and anticipate opening four new locations in the coming year. In conjunction with this, all existing restaurants will be re-modelled to meet the standards and concept of our new location.

...IT'S FUTURE

CHALET FARMS LIMITED

Our poultry processing plant in Port Perry, Ontario has been considerably enlarged to provide additional office space, extra cooler facilities and an extended area to augment the existing chicken processing plant.

It is our opinion that the market for chicken meat and chicken products will be expanded by providing the institutional and consumer user with a quality product, properly prepared and packaged. This convenience food concept is becoming increasingly successful and we are viewing our programme at Chalet Farms in conjunction with the Swiss Chalet name with optimism.

Management at Chalet Farms in association with the supplying hatchery is constantly breeding and testing new flocks of chicken as well as researching and improving processing techniques to provide the Swiss Chalet Restaurants with the finest possible products.

CHICKEN CHALET

During the past year, we have conducted extensive research with a view to establishing a cooking concept for chicken which would be comparable to and complimentary with the standards maintained by our Swiss Chalet restaurants. This was done with the aim of establishing a quality product capable of being marketed by chicken take-out outlets. Through the use of an entirely new concept in the preparation and cooking of chicken, we believe that we have now developed a product superior to any on the market today which will be sold through a take-out restaurant bearing the name of Chicken Chalet. A location has already been acquired, and is presently under construction with a tentative opening date of early fall. Chicken Chalet locations will:

(a) be located in primarily leased locations with options to purchase where possible.

(b) require a minimum of capital outlay primarily towards remodelling and equipment.

(c) be franchised for 10 years with down payment and costs to be proportionately lower than a Harvey's.

The importance of this move is to add locations as quickly as possible to gain marketing distribution which will permit our plant facilities to produce closer to its capacity.

We shall continue our policy of informing our shareholders of any new developments through the use of our quarterly and annual reports as well as additional direct mailing.

...OUR FRANCHISEE

The acceptance of the fast food industry in our society is more attributable to science than it is to art. Merchandising, quality control, cleanliness and fast efficient service all contribute to the success of every operation. The key to the proper use of these techniques lies in the man most intimately involved in their implementation — the franchisee.

Prospective franchisees are interviewed to establish financial stability and discuss personal background with special emphasis on his ability to organize, his ability to direct people and his desire to own and operate his own business. These general terms have by implication numerous inherent associations of ideas and concepts which are fully explored.

The franchisee, on being accepted, begins a three week training schedule that will educate him thoroughly in the Harvey's system. He is paid a salary and expenses during his stay at the training centre in Toronto. Every facet of the operation is studied during the time he works in the restaurant performing the duties that will become daily routine. The knowledge he acquires is thorough, preparing him to give similar instruction to his staff. This is carried out under the constant supervision of Harvey's staff who are available for periods of discussion and instruction in a classroom like atmosphere. The franchisee is afforded the opportunity to visit other sit-down and drive-in locations where he meets and works with fellow franchisees. The head office staff make their facilities available counselling the franchisee on proper bookkeeping and accounting procedures, preparing and submitting applications for licences, ordering inventories, assisting him in hiring competent staff and reviewing promotional and advertising material.

The supervisor assigned to the franchisee's area will stay with the operator during his grand opening and will assist him until he feels the operation is running smoothly. At this time the franchisee will have a thorough knowledge of the Harvey's system, of each piece of equipment and all products to be used and ordered, so that his location is a complete self-sufficient entity operating according to the standards of Harvey's in conjunction with the whole corporate structure.

1. A prospective franchisee being interviewed by Quebec Supervisors Raymond Gravier and Michael Maruska.
2. David Cornblum, Training Supervisor, explaining use of cash register to Brian Davies, franchisee for Chatham, Ontario.
3. Edward J. Kozak, Secretary and General Manager reviewing weekly inventory and sales report with David Cornblum.
4. & 5. Monthly Meeting held in Toronto attended by all supervisors, head office staff and 15 operators who progressively rotate every few months with other operators. Each location is reviewed as to weekly cleanliness reports made by supervisors and profit and loss statements. In general, advertising, insurance, legal and corporate problems are discussed.
6. Semi-Annual Meeting of all operators.
7. Edward Doryk and his wife Mary accepting their Swiss Chalet Winnipeg location from George B. Sukornyk.
8. Edward Doryk accepting his Harvey's location (adjacent to Swiss Chalet) in Winnipeg.

HARVEY'S GOES TO Germany

Western Germany provides an ideal marketing area exhibiting a need for well equipped restaurants serving quality products in a pleasant atmosphere. The availability of an established chain of restaurants at a most opportune time, prompted us to proceed with the purchase of Wille's, a chain of eleven restaurants operating in eight cities in Western Germany. The purchase was completed on January 1, 1969 by our wholly-owned subsidiary, Harvey's Foods G.m.b.H. These restaurants have operated successfully for eight years, serving typically German meals in fully licensed premises having an average seating capacity for 53 people.

Our assistant treasurer, Jutta G. Steinmeister, was appointed Director and General Manager of Harvey's Foods G.m.b.H. and transferred to Munich to institute Harvey's system of accounting and controls. In conjunction with this she is charged with the responsibility of having our kitchens redesigned to provide greater efficiency and replace equipment where necessary to accommodate a reduced menu and train staff to meet our requirements. The menu which had previously offered a wide selection has been greatly reduced. Past records indicated that these items not only had the greatest customer acceptance but on calculating food cost and labour, provided the best possible return.

This concept has been well received and will form the basis for future locations including the restaurant presently under construction in Deggendorf. It is estimated that within one year all restaurants will be operating according to our standards and be ready for franchising.

Present indications, borne out by inquiries received, confirm our belief that there is an abundance of competent people who would prove capable franchisees.

The growth potential in Western Germany will allow us to maintain an agressive expansion programme that will be similar to that experienced in the industry in North America.

OUR NAME IS *Wille's* OUR SYMBOL IS

JUTTA GISELA STEINMEISTER
Assistant Treasurer – Harvey's Foods Limited
Director and General Manager – Harvey's Foods G.m.b.H.

WOLFGANG WILLE
Assistant General Manager – Harvey's Foods G.m.b.H.